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ECONOMIC TRENDS

1990 MID YEAR REVIEW

This issue of Economic Trends provides a general overview of the economic situation in Canada and Prince Edward Island in the first half of 1990. The reader should bear in mind that this information is subject to revision, though it does provide sufficient data to gain general insights into the economy.

1. National Outlook

The Canadian economy clearly faltered in the first half of 1990, and this most likely ends the seven year expansion that has occurred since 1983. Modest growth in the first quarter of 1990 turned to a decline in the second quarter. The overall level of Canadian economic output was up by 1.8 per cent in the first half of 1990 compared to the corresponding period in 1989, but during the second quarter Canada's Gross Domestic Product fell by 1.6 per cent at an annual rate. The Bank of Canada and the federal Department of Finance for the past year have been concerned that the Canadian economy was about to enter an inflationary spiral and therefore have been following a high interest rate policy. The decline in output is largely attributed to these high interest rates, declining business and consumer confidence, and the high value of the Canadian dollar in terms of U.S. funds.

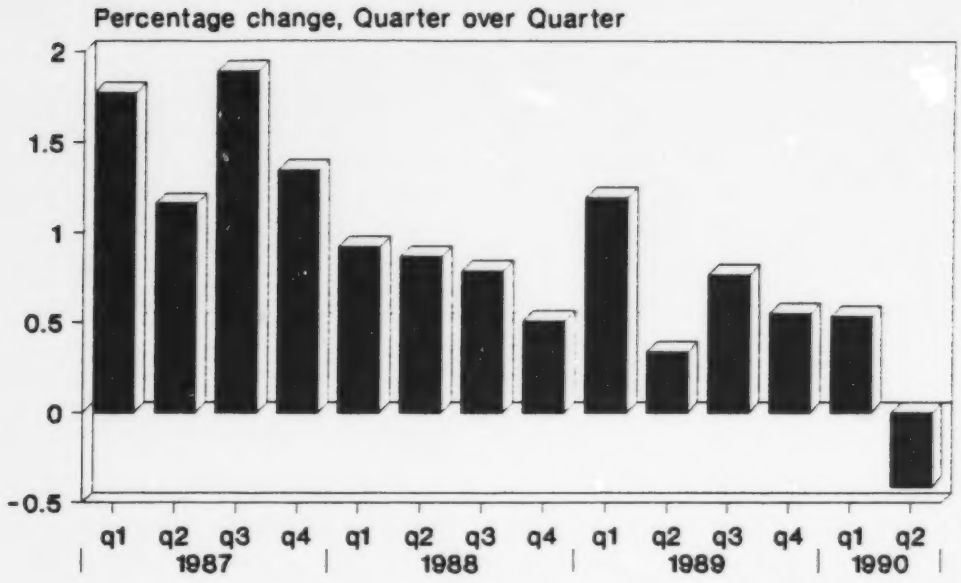
Diagram 1 shows the quarter over quarter rate of change in Canada's seasonally adjusted Gross Domestic Product for the period 1987 to the first half of 1990.

1991 CANADA GAMES
PRINCE EDWARD ISLAND
FEBRUARY 17 - MARCH 2

JEUX DU CANADA 1991
ÎLE-DU-PRINCE-ÉDOUARD
du 17 FÉVRIER au 2 MARS

Diagram 1

Real Gross Domestic Product
Canada, 1987-1990



Business fixed investment in constant dollars declined 1.4 per cent in the first half of 1990 due to reduced activity in residential construction and decreased purchases of machinery and equipment which declined 4.8 per cent in the first two quarters of 1990. It posted annual increases of over 10 per cent during the period 1984 to 1988, and 5.4 per cent growth in 1989.

Business residential construction activity declined 1.9 per cent in the first six months of 1990. Housing starts in Canada in the first six months of 1990 declined slightly to 213,000 units (seasonally adjusted annual rate) from 214,000 within the corresponding period in 1989.

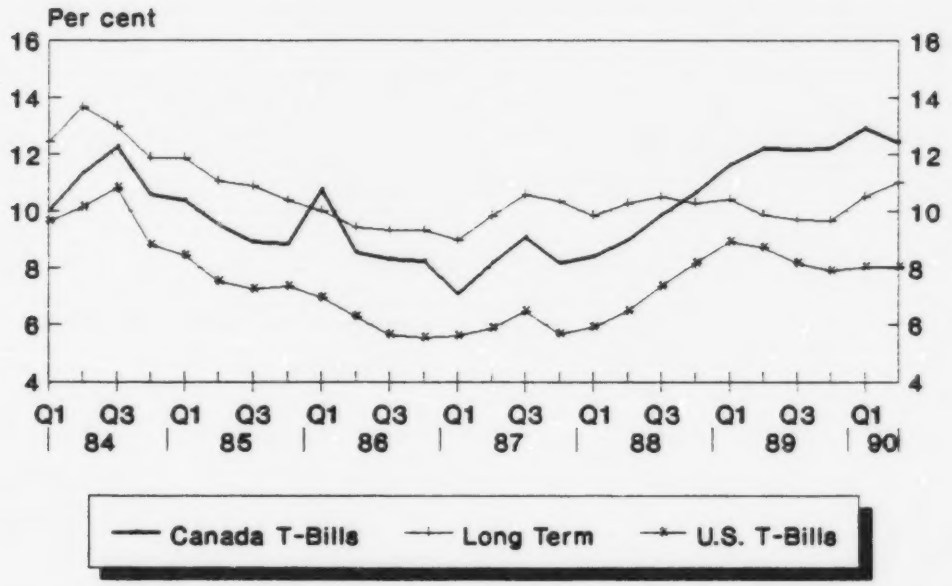
Consumer spending on goods and services, which is the largest expenditure component of Gross Domestic Product, increased 2.3 per cent in constant dollar terms in the first two quarters of 1990 from the corresponding period in 1989. This is attributable to declines in sales of motor vehicles, parts and repairs, and furniture and household appliances.

The monthly unemployment rate in Canada in the first six months of 1990 averaged 7.5 per cent, a marginal decline from 7.6 per cent in the corresponding period in 1989. The unemployment rate has been declining in Western Canada, rising in Central Canada, and rising in Atlantic Canada (with the exception of a slight decline in New Brunswick).

The rate of consumer price inflation in Canada, as measured by the percentage change in the all-items Consumer Price Index, stood at 5.0 per cent in the first six months of 1990. The year over year change in the Canadian Consumer Price Index peaked at 5.5 per cent in January and February 1990. This was the highest monthly rate of consumer price inflation since February 1984.

Diagram 2

Selected Interest Rates
Quarterly, 1984-90



The interest rate for three month Treasury Bills increased 1.4 per cent during the first six months of 1990 to reach 13.6 per cent by June. The Bank Rate, after remaining at about 12.2 per cent from May 1989 to the end of that year, jumped to 14.05 per cent by the end of May 1990. The widening differential between Canadian and U.S. short-term interest rates in the first half of 1990 was a major factor in sustaining the Canadian dollar at levels above 85¢ U.S.

2. Prince Edward Island

Available data on the Prince Edward Island economy in the first half of 1990 indicate that growth continued, albeit at a slower pace than in recent years. Areas of strength in the Island economy in the first half of 1990 include non-residential construction, the continued high value of farm cash receipts, international exports, and manufacturing shipments. The strongest area in the provincial economy in 1990 is non-residential construction. Major construction projects include investment by government departments, shopping mall developments, and potato processing facilities.

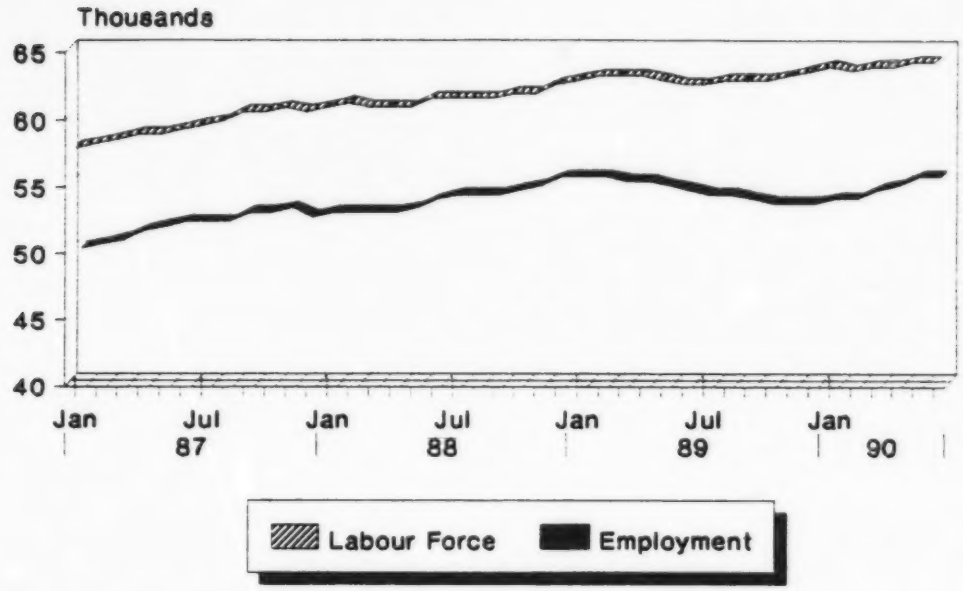
However, the Prince Edward Island population declined slightly from 130,600 on January 1 1990 to 130,400 on June 1 1990. Net interprovincial out-migration of 630 in the first five months of 1990 caused this population drop. The transfer of military personnel from the CFB Summerside airbase and weak local economic conditions are the likely causes of this out-migration.

(a) Labour Market

Employment levels have held up on Prince Edward Island as the seasonally adjusted monthly employment level for Prince Edward Island averaged 54,500 in the first half of 1990, unchanged from the corresponding period in 1989. Employment gains appeared to be in manufacturing and the service sector. However, declines in employment were noted in the construction and trade industries. Diagram 3 shows the monthly employment and labour force trends on Prince Edward Island for the period 1987 to the first half of 1990.

Diagram 3

Labour Force & Employment
P.E.I., 1987-90

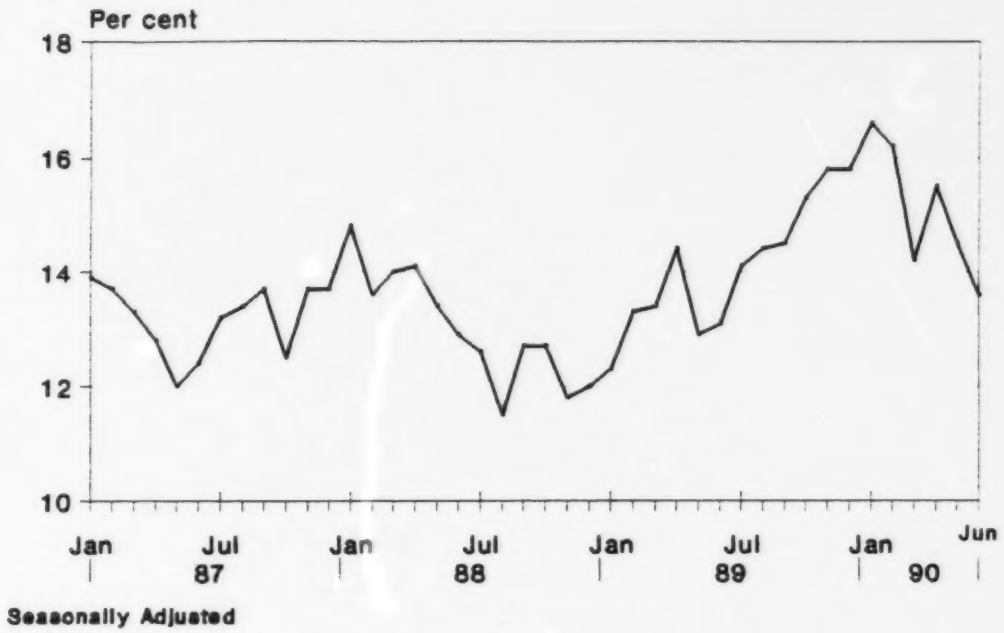


Seasonally Adjusted

The labour force on Prince Edward Island averaged 64,000 during the first six months of 1990 compared to 63,000 in the corresponding period in 1989. This increase was a combination of a larger working age population and higher labour force participation rate. The monthly labour force participation rate (seasonally adjusted) in Prince Edward Island in the first half of 1990 increased to 65.4 per cent compared to the 1989 annual rate of 65.0 per cent. Both the male and female labour force participation rate rose by equal amounts during this period.

Diagram 4

Unemployment Rate
P.E.I., 1987-90



The seasonally adjusted unemployment rate for Prince Edward Island averaged 15.1 per cent in the first six months of 1990, a substantial increase from the 13.1 per cent averaged in the same period in 1989. The trend in the unemployment rate during 1990 has been downward, falling from 16.6 in January 1990, to 13.6 per cent in June. Diagram 4 shows the monthly unemployment rate (seasonally adjusted) for the period 1987 to the first half of 1990. During the past year the losses in employment coincided with an expanding labour force, causing the unemployment rate to rise.

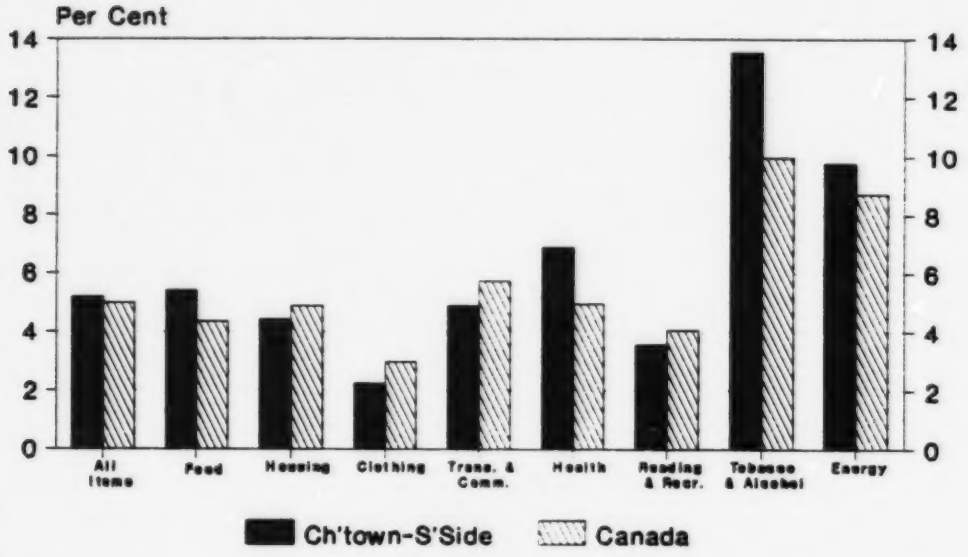
(b) Consumer Prices

The rate of increase of consumer prices on Prince Edward Island picked up in the first half of 1990 averaging 5.2 per cent compared to the annual rate of 3.8 per cent in 1989. The monthly rate rose to 5.8 per cent in April 1990, the highest rate since May 1983. Diagram 5 shows the percentage increase in the components of the Consumer Price Index for Charlottetown-Summerside and Canada. The largest increase was in the tobacco and alcohol component of the Consumer Price

Index. Energy is a special aggregation of items within the Consumer Price Index, and it increased 9.7 per cent in Charlottetown-Summerside and 8.7 per cent in Canada. The energy price index has generally been declining since 1985, but rose in the first half as a result of 1990 with higher crude oil prices early in 1990.

Diagram 5

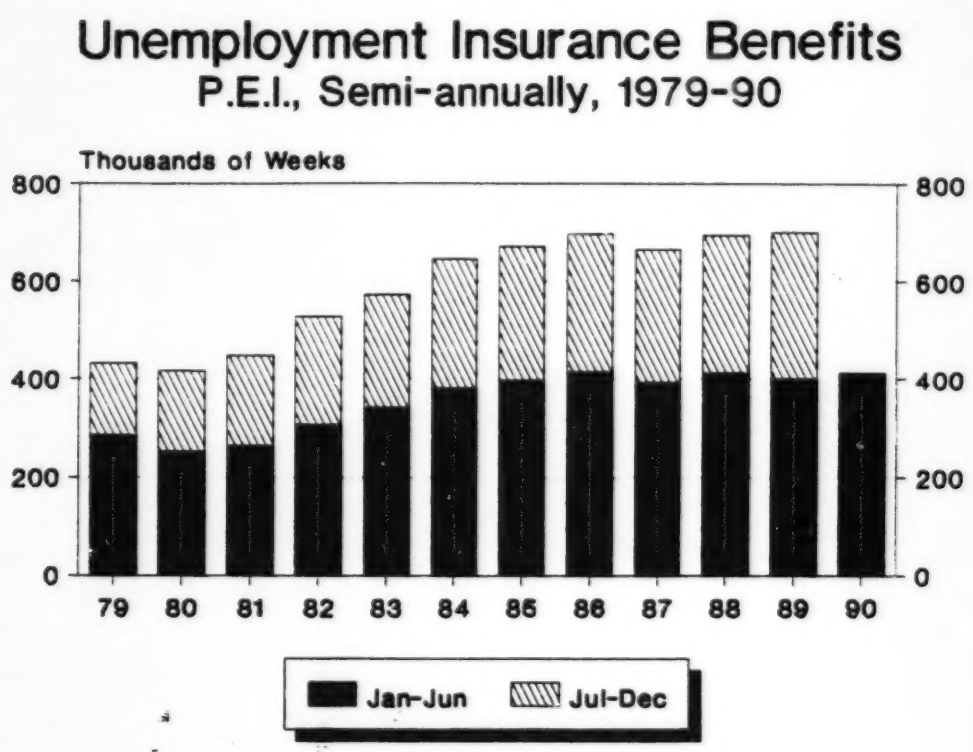
Per Cent Change in Consumer Price Index
Charlottetown-Summerside & Canada
January - June, 1990



(c) Incomes

Available statistics indicate that personal income in the Province continued to grow in the first part of 1990 compared to 1989. Wages and salaries, the largest component of personal income, totaled $392.7 million in the first five months of 1990. This represents an increase of 6.7 per cent over the corresponding period in 1989.

Diagram 6



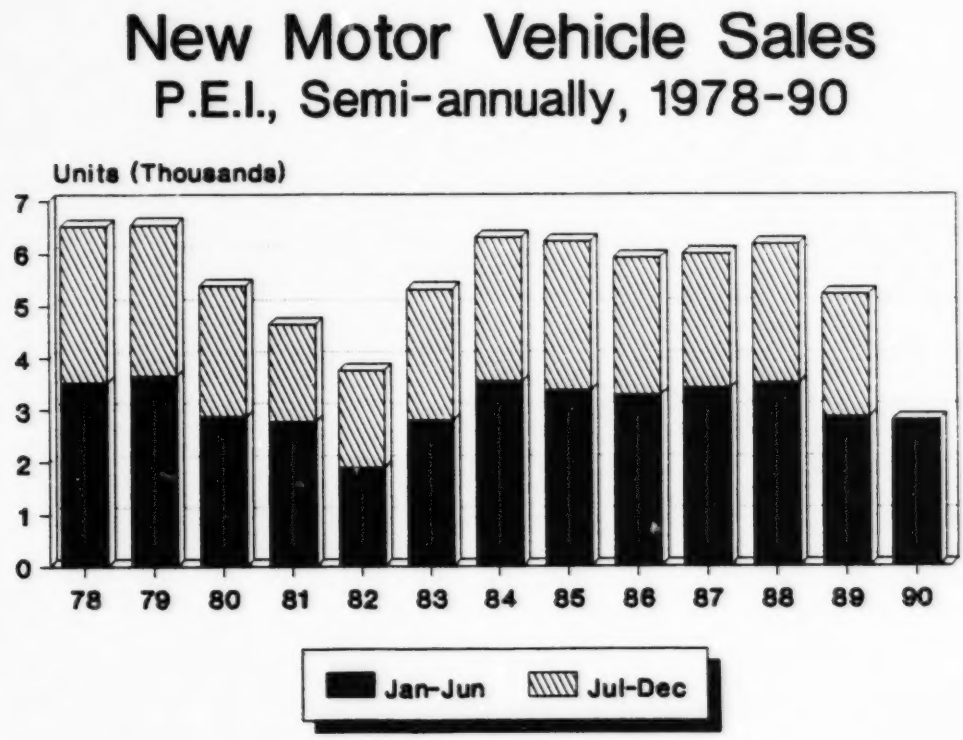
Unemployment Insurance benefits are another major component of personal income on Prince Edward Island. Unemployment Insurance benefits paid on Prince Edward Island rose 11.0 per cent to reach $95.4 million in the first half of 1990. This was mostly due to a higher average weekly payment, but it was also the result of an increase in the number of weeks of Unemployment Insurance benefits paid. The average weekly payment increased 7.6 per cent in the first six months of 1990 compared to the corresponding period in 1989. The total number of weeks of Unemployment Insurance benefits paid during the first half of 1990 totaled 412,320, an increase of 3.1 per cent over the same period in 1989. Diagram 6 shows the semi-annual number of weeks of Unemployment Insurance

benefits paid on Prince Edward Island over the period 1979 to 1990. The diagram shows that for the past few years, during the first half of each year, about 400,000 weeks of Unemployment Insurance benefits are paid to Islanders.

(d) Expenditures

Consumer spending in the Province slowed considerably in the first half of 1990. The value of retail trade in the first six months of 1990 increased by only 0.3 per cent (a decline of 4.9 per cent in constant dollar terms) compared to the corresponding period in 1989. This slow growth has occurred even though wages and salaries on Prince Edward Island increased 6.7 per cent in the first six months of 1990. Economic uncertainties in the fishery and tourism, high interest rates, and a slowing national economy have reduced the growth of retail trade. Although the value of new motor vehicles sold in the first half of 1990 increased 2.2 per cent, the number of units sold declined 2.5 per cent. This has been partially the result of higher interest rates as the total number of new motor vehicles sold in Canada declined 8.9 per cent in the same period.

Diagram 7



Total capital and repair expenditures intentions on Prince Edward Island in 1990 are projected to increase 7.7 per cent to $561.7 million. Statistics Canada's Private and Public Investment Survey results for Prince Edward Island are shown in Table 1. Among sectors, the highest rate of growth in capital investment is expected in the trade sector growing an estimated 52.6 per cent. Non-residential construction is expected to increase by more than this survey indicates as McCain's potato processing plant, currently under construction in Albany (near Borden), was not included in the survey.

Table 1

Public and Private Investments
Prince Edward Island, (Millions $)

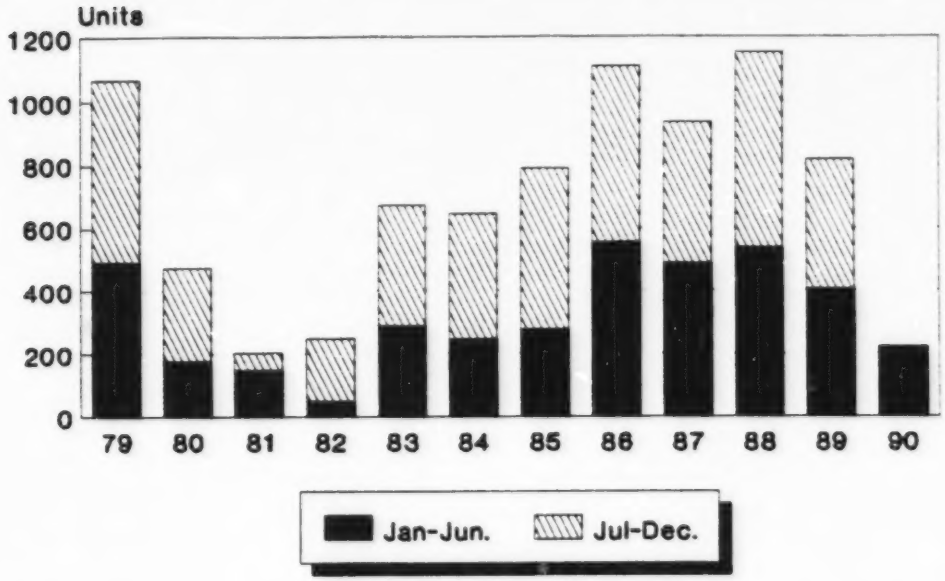
	Capital and Repair Expenditure			Total Capital and Repair Expenditure		
Industries	1989 Const. Only	1990 Const. Only	% Change 1990 1989	1989 Const. & M.E.	1990 Const. & M.E.	% Change 1990 1989
Primary & Construction	19.0	19.1	0.5%	72.2	73.0	1.1%
Manufacturing	0.9	0.5	-44.4%	18.2	15.9	-12.6%
Transportation	2.0	1.6	-20.0%	8.1	9.2	13.6%
Communications	8.7	10.6	21.8%	29.5	41.4	40.3%
Misc. Utilities	13.6	8.3	-39.0%	18.1	17.6	-2.8%
Trade	6.4	10.1	57.8%	19.4	29.6	52.6%
Finance	22.0	33.6	52.7%	28.4	40.4	42.3%
Commercial Ser.	22.3	18.7	-16.1%	45.6	40.0	-12.3%
Institutions	19.7	28.8	46.2%	26.6	34.4	29.3%
Government Dept.	87.3	88.2	1.0%	107.7	109.7	1.9%
Housing	147.9	150.5	1.8%	147.9	150.5	1.8%
TOTAL	349.8	370.0	5.8%	521.7	561.7	7.7%

Source: Statistics Canada, Cat. No. 61-206

The number of housing starts for the first six months of 1990 declined 44.7 per cent to measure 227 units. This compares to 403 units in the first half of 1989, and 534 in 1988. High interest rates and slow population growth in Prince Edward Island have undoubtedly contributed to this sharp decline. The planned closure of CFB Summerside also appears to be a factor as only 7 housing units were started in the Summerside area in the first six months of 1990. Diagram 8 shows the semi-annual level of housing starts over the period 1979 to 1990.

Diagram 8

Housing Starts
P.E.I., Semi-Annually, 1979-90



The value of residential building permits issued on Prince Edward Island during the first six months of 1990 totaled $29.8 million, a decline of 1.1 per cent compared to the first half of the previous year. Although the value of residential building permits has only declined slightly, the number of building permits in the first six months of 1990 has fallen 19.9 per cent. This decline in residential building permits can largely be attributed to decreased multiple unit dwellings (such as semi-detached, row, and apartment units). Building permits for single family dwellings have declined only 1.5 per cent.

The value of international exports from Prince Edward Island during the first six months of 1990 increased 7.6 per cent over the corresponding period in 1989. Exports to the United States, Prince Edward Island's major export market, increased by 4.8 per cent.

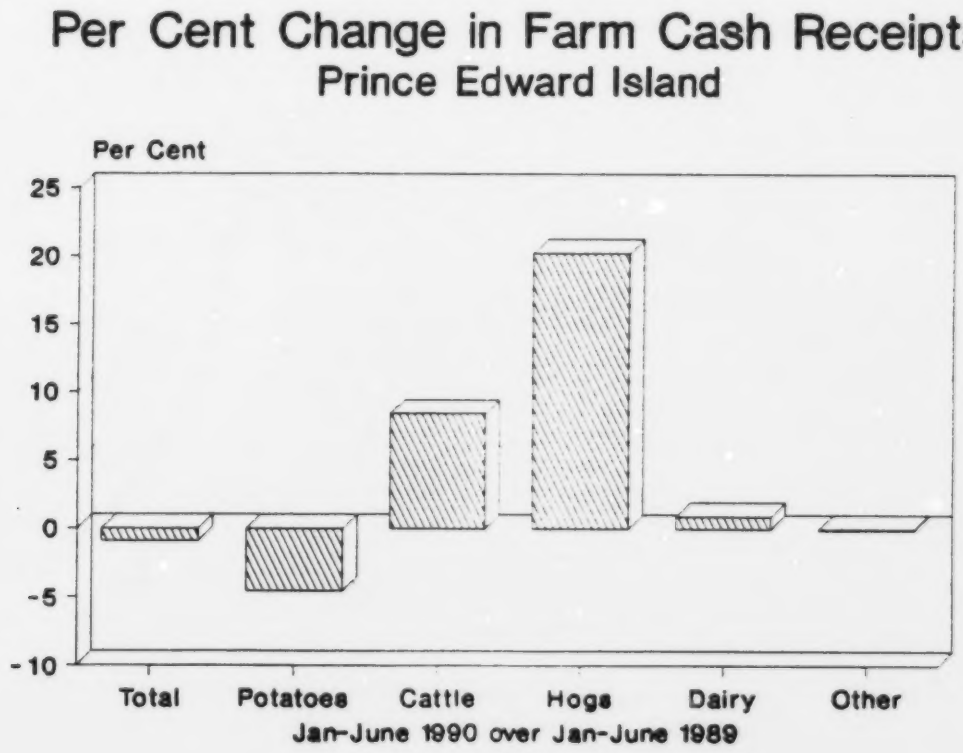
Tourist visitation for the May 15th to June 30th 1990 period declined 9.7 per cent. Prince Edward Island is suffering from the general decline in tourism throughout

Eastern Canada and the New England States. Auto parties to Prince Edward Island declined particularly from Nova Scotia, Ontario, Quebec, and the New England States.

(e) Agriculture

The value of farm cash receipts for Prince Edward Island totaled $139.6 million in the first half of 1990. This compares to $141.0 million for the same period in 1989. Diagram 9 shows the percentage changes in farm cash receipts by the Island's major crops for the first six months of 1990 compared to the same period in 1989.

Diagram 9



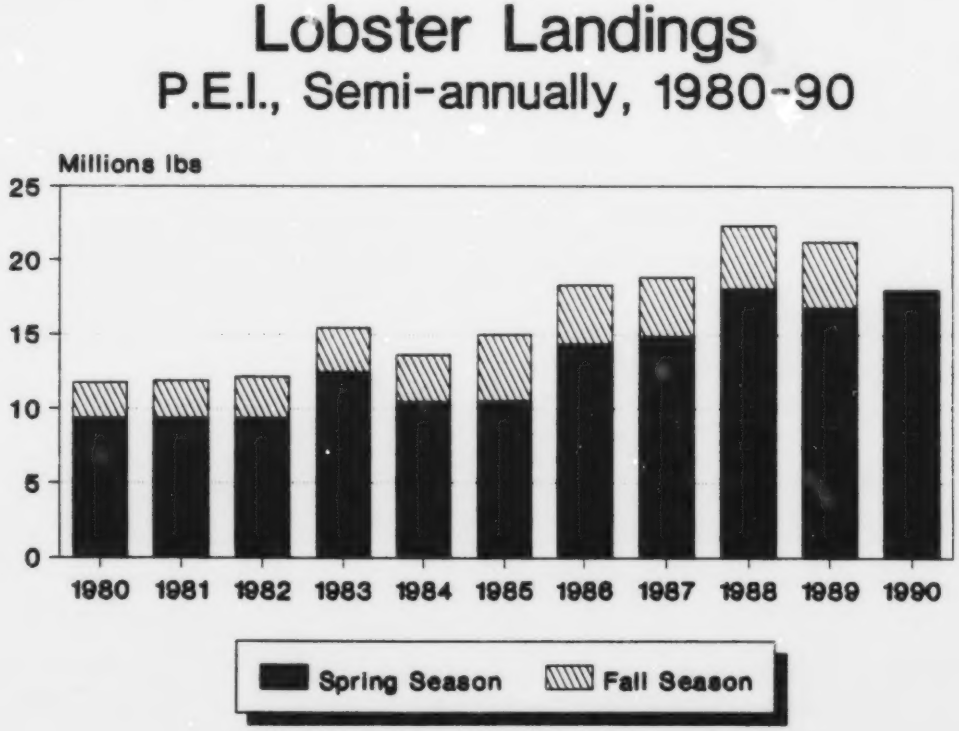
Farm cash receipts for potatoes declined slightly in the first quarter of 1990. Statistics Canada estimates the Island's seeded acreage in potatoes for 1990 at 75,000 acres, an increase of 7,000 acres over the 1989 estimate. Potato acreage for Canada increased 4.5 per cent to reach 293,400 acres, and acreage planted for the fall harvest in the United States increased 6.0 per cent.

Receipts from the sale of livestock rose 6.3 per cent in the first half of 1990. The majority of this increase was attributable to a 20.2 per cent increase in receipts for hogs and also an 8.4 per cent increase in receipts for cattle.

(f) Fishing

The volume of lobster landings in the spring season of 1990 increased 7.0 per cent. However, the total value of these landings declined 16.0 per cent as the average price for lobster declined 21.4 per cent. Compared to the prices received in 1988, the average price for lobster in the spring season of 1990 has fallen 32 per cent. Diagram 10 shows the volume of lobster landings on Prince Edward Island in the spring and fall seasons for the period 1980 to the 1990 spring season.

Diagram 10



Other areas of the Island fishery have fared better than lobster in the first half of 1990. The volume of the groundfish harvest in the first half of 1990 increased 6.7 per cent, and the landed value increased 5.2 per cent. Shellfish landings, excluding lobster, increased 26.0 per

cent in volume and 20.6 per cent in value during the first six months of 1990 compared to the corresponding period in 1989.

(g) Manufacturing

The value of manufacturing shipments on Prince Edward Island for the first six months of 1990 was $213.1 million, an increase of 11.1 per cent from the previous year. Most of this increase was due to an increase in shipments from the fish products industry.

3. Summary & Conclusions

The Canadian economy faltered in the first half of 1990, posting a decline in the second quarter. High interest rates and the high value of the Canadian dollar appear to be slowing the national economy.

The provincial economy is also slowing both as a consequence of national and regional conditions as well as the impact of the closure of the CFB Summerside airbase. Bright spots in the Island's economy are the expansion of non-residential construction activity, and the continued high value of farm cash receipts.